

FINANCIAL CONTROL IN AUSTRALIAN GOVERNMENT BUDGETING*

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ABSTRACT

With the arrival of accrual accounting and a performance budgeting system known as "accrual output budgeting", there have been huge changes in the mechanism of central financial control in the budget-dependent Australian public sector. This article outlines and evaluates these changes. The new parliamentary appropriations arrangements are discussed, as is the increased role played by non-appropriated departmental "own-source" funding. The commercialisation rationale of these changes is outlined. Consideration is given to their implications for fiscal transparency and democratic accountability.

INTRODUCTION

Public sector budgeting in Australia has changed radically in recent years. Prior to the late 1990s, the Commonwealth (national) Government and all but one of the eight State/territory governments employed traditional "cash" accounting as the basis for financial reporting in their budget ("general government") sectors. All governments presented their annual budgets to Parliament on a cash basis. In the late 1990s, however, there was a general shift to accrual accounting for financial reporting purposes. Virtually simultaneously, the Commonwealth and six of the eight State/territory governments adopted a performance budgeting system known as "accrual output budgeting" (AOB)¹.

Accrual output budgeting² is a specific form of performance budgeting. Exponents of performance budgeting argue that the annual government budget should be concerned with much more than financial control—with much more, in other words, than the enforcement of central (ie treasury/cabinet/presidential) control over the aggregate level of present and future departmental expenditure. They argue that budgeting should also serve as a key instrument for maximising efficiency and effectiveness in the government delivery of services to the community. Budgeting ought, in other words, to be concerned not merely with the resources which departments use, but with the results which they produce with those resources.

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Accrual output budgeting draws heavily upon the conceptual framework of program budgeting, but goes much further than the program budgeting emphasis upon budget formulation in terms of outputs and the accountability role of performance indicators. Its distinctive feature is that it seeks to place the entire budget mechanism on an "internal market" or "purchaser/provider" footing. AOB conceptualises the budget process as one in which the government "purchases" products from departments in market-type transactions. Its aim is that departments should operate as quasi-independent businesses. Government funding is considered to be business "revenue", and departments have acquired their own individual profit and loss statements. The idea is that departmental profit results should become a key departmental performance indicator.

Australia imported AOB from New Zealand, which could in turn be said to have modelled its budget system on the sectoral internal markets developed in the Thatcher era in Britain (and more specifically, upon the internal market model implemented in the British National Health System)³.

As a consequence of the adoption of AOB, the Australian budget framework has been radically recast in the image of the market. This has had major implications for the manner in which the financial control function of budgeting is effected, and it is upon these implications that this paper focuses.

FINANCIAL CONTROL UNDER CASH ACCOUNTING AND BUDGETING

Prior to the recent accounting and budgeting changes in Australia, financial control was largely appropriations-based. The great bulk of funding available to departments was provided or authorised by Parliament either through annual budget appropriations or through special/standing appropriations⁴. During the 1970s and 1980s budget reformers had successfully striven to bring within the appropriations umbrella departmental funding sources (such as trust funds) which had previously been beyond the reach of parliamentary control and approval. This was viewed at the time as a major victory for public accountability and democratic control.

The "cash" budget appropriations framework which operated in Australia prior to the late 1990s was, in its essentials, similar to that which operated in many other parts of the world. To simplify, each department received an appropriation for current outlays, and an appropriation for capital outlays. Departments were not permitted to use current appropriations for capital purposes, or vice versa.

As in many other parts of the world, most Australian governments modified the cash accounting framework for budgeting purposes so that departments were required to cover bills payable, as well as cash outlays, from their parliamentary outlays appropriations. The incorporation of this accrual element within the cash budgeting framework was designed to deal with the problem that to set budgetary authorisation limits in terms of cash outlays is to leave departments with scope to evade those limits by manipulating expenses which involve *future* cash outlays. Including bills payable in the budgetary definition of outlays still left financial commitment such as increases in accrued employee entitlements and financial/operating leases outside the scope of the appropriations mechanism. Such commitments had to be controlled by other means, including some use of discretionary Treasury⁵ controls (e.g. a requirement for

Treasury approval of leases). It could therefore not be said that financial control relied exclusively on the appropriations mechanism. Overall, however, reliance upon such administrative controls for financial control purposes was relatively limited.

FINANCIAL CONTROL UNDER ACCRUAL OUTPUT BUDGETING

Under the new system of accrual output budgeting, financial control mechanisms have changed significantly. Departments no longer receive *outlays* appropriations. Simplifying a little, the two former outlays appropriations categories (current and capital) can be said to have been replaced by three new appropriations categories: a "payment for outputs" appropriation, an "equity injection" appropriation, and an appropriation for "administered" expenditures. The payment for outputs appropriation supposedly represents the "price" paid to the department by the Government, acting in its purchaser role, for the services which the department delivers. The equity injection is considered to be analogous to an injection of shareholder funds into a business⁶. The appropriation for administered items is intended to cover expenditures for purposes over which the department has no managerial control or accountability⁷. The need for this latter appropriations element arises from the AOB objective of creating unambiguous departmental accountability for outputs and investments over which the department does have control. In what follows, we shall ignore the administered items appropriations category, and focus upon the two appropriations elements which provide funding for purposes over which the department is considered to have control.

The role played by parliamentary appropriations in financial control has been reduced somewhat under AOB. This is because there has been a significant expansion in non-appropriations sources of funding available to departments. Departments are now able draw upon assets in their balance sheets as a source of funds which can be utilised without any need for parliamentary authorisation. As explained below, this own-source funding is derived principally from "funded" depreciation, accumulated profits and asset sales receipts.

The Payment for Outputs Appropriation

The payment for outputs appropriation is an accrual rather than cash (or modified cash) appropriation. In other words, it "funds" departmental *expenses* rather than departmental outlays. The payment for outputs appropriation must therefore be applied to fund not merely cash expenses such as wage payments, but also non-cash expenses such as bills payable, increased liabilities for employee entitlements (such as long-service leave⁸) and depreciation⁹. Most of these non-cash expenses involve future outlays. Where this is the case, the department must set aside from its appropriation an amount sufficient to cover these future outlays. Funds built up in the department's bank account to cover such liabilities are not surplus funds, and therefore cannot properly be regarded as potential own-source funding. However, if a department's expenses in any year are less than the payment for outputs which it receives, the department makes a profit which represents unencumbered or surplus funds available for future own-source funding. In addition to this, under most AOB systems "funded" depreciation generates a further reservoir of own-source departmental funds (more on this below).

Broadly speaking, the payment for outputs appropriation serves as an upper limit upon each department's expenses¹⁰, so that the appropriated amount is a direct financial control aggregate. This statement must be qualified. In some instances, a department's budgeted expenses¹¹ may exceed its payment for outputs appropriation, with the consequent operating deficit being made up partly or wholly by drawing upon surplus own-source departmental funds. The circumstances in which this might occur are discussed further below. The key point to note at this stage is that departments can only incur expenses in excess of their payment for outputs if they are instructed or authorised to do so by the Treasurer. Departments therefore do not enjoy decentralised control over the use of any surplus funds in their balance sheets. There is firm central control, of an administrative rather than parliamentary nature.

The Equity Injection Appropriation and Capital Funding

By contrast to the payment for outputs appropriation, the equity injection appropriation is not a direct financial control aggregate. While it is true that the primary function of the equity injection appropriation is the provision of funds for capital purposes, own-source funds play a central role in funding capital expenditure under AOB. Moreover, equity injections have, at least in theory, a function in addition to the funding of capital expenditure: they are a means of funding departmental operating deficits when departments do not have sufficient surplus own-source funds for this purpose.

There are two major types of own-source funding for capital expenditure. The first of these is "funded" depreciation. As noted above, the "price" which departments are paid for their products via the payment for outputs appropriation covers depreciation as well as other expenses. Unlike these other expenses, depreciation does not involve an outlay either now or in future, so the depreciation component of the payment for outputs appropriation represents surplus funds which can therefore be used to fund capital expenditure. In most Australian jurisdictions, if a department's capital expenditure is less than its funded depreciation in a given year¹², the department retains the surplus depreciation funds and is able to draw upon them to fund future capital expenditure. Underpinning this is a view that departments should, as a rule, be able to "maintain their capital base"¹³ over time without requiring new equity injections from government, by using accumulated depreciation funds to fund asset replacement. This doctrine of operating capital maintenance¹⁴ explains the Commonwealth Department of Finance and Administration's assumption that "equity injections and loans are not generally expected to occur frequently"¹⁵.

Accumulated depreciation funds are, consequently, a potentially important form of own-source capital funding. Crucially, however, departments require Treasury approval to draw upon accumulated depreciation funds. Once again, firm central financial control has been maintained, but the control is administrative rather than parliamentary in nature.

In addition to "funded" depreciation, asset sales receipts are also available for the own-source funding of capital expenditure. Consistent with the doctrine of operating capital maintenance, if the department sells a physical asset it now retains the sale receipts. This contrasts with pre-AOB arrangements under which the general principle was that asset sales receipts were paid over to Treasury, with any

arrangements for the partial or full retention of such receipts usually being negotiated on an ad hoc basis. As with the other types of own-source funding, departmental use of these funds requires Treasury approval, as does any proposal to sell a major asset.

The significance of funded depreciation and own-source capital funding is so great that a department's equity injection appropriation usually bears little relation to its capital expenditure. It is even possible that a department might receive a negative equity injection, but nevertheless be undertaking capital expenditure. In an attempt to make a rather complex position somewhat more transparent, the annual budget papers presented to parliaments now include a statement (known at the Commonwealth level as the Capital Budget Statement) which reports total capital expenditure and provides information about the sources of funds for that capital expenditure. Notwithstanding this, it is fair to say that the AOB funding arrangement do obscure the nature of central financial control over capital expenditure.

It is not uncommon to find amongst public servants a simple misconception about budgeting under accrual accounting—a misconception encouraged by the opacity of the capital expenditure control mechanism under AOB. The misconception is that the replacement of cash accounting with accrual accounting means that budgeting should be based on accrual rather than cash concepts, so that budgeting ought to dispense with control of outlays and focus exclusively upon control of expenses. Such a view is obviously fundamentally mistaken. Financial control cannot be effective if it relies exclusively either on outlays control or on expenses control. As noted above, budgeting in pure cash accounting terms has the serious limitation that it fails to control expenses which involve future outlays. Equally, however, to budget in pure *accrual* terms would be to fail to control outlays which involve future expenses (ie capital expenditure). Just as outlays budgeting must be accompanied with other controls over expenses involving future outlays, so budgeting in an accrual accounting environment must continue to control capital expenditure aggregates.

FINANCIAL CONTROL VERSUS DEPARTMENTAL MANAGERIAL AUTONOMY

Within departments, the new financial control arrangements have led to some resentment. Accrual output budgeting is firmly within the "new public management" tradition. Its touchstones are devolution, de-control, and a focus upon accountability for results. Indeed, accrual output budgeting arguably goes further than most internal market models in seeking to make departments operate like independent businesses. The intention is that departmental management should focus strongly upon the bottom-line operating result. Yet under the new arrangements, departments have no discretionary power to use accumulated profits as they see fit. Treasury approval is required. Not only that, but if the department builds up significant accumulated profits, it may, as discussed below, be forced by Treasury to apply those funds to ordinary operating expenses which ought, by rights, to be met from the payment for outputs appropriation.

Departments have, moreover, been told that they should become active managers of their fixed asset portfolio. To reinforce this point, the Commonwealth and some of the States¹⁶ have introduced capital charging regimes. At the same time, however,

Treasuries insists upon the right to control departments in their use of depreciation funds and asset sales receipts.

From the departmental perspective, there is consequently a huge gulf between devolution rhetoric and the reality of firm central financial control.

It is tempting, but far too simplistic, to attribute the problem to an unwillingness on the part of Treasuries to relinquish control. The real problems is that there are fundamental limitations upon the application of the business template to tax-financed government departments. In a market context, the corporation's owners (shareholders) are generally not also its customers, so they do not have to meet the corporation's operating expenses out of their own pockets. Owners are, moreover, generally protected by limited liability, and are therefore able to distance themselves from the corporation's liabilities should become insolvent. For these and other reasons, shareholders do not need to directly control the corporation's expenses, expenditure and liabilities. The situation is, however, totally different in the budget sector of government. If government is to keep taxes at acceptable rates, ensure fiscal sustainability (by preventing financial liabilities from reaching unsustainable levels), and pursue a fiscal policy consistent with its macroeconomic goals, it must assert firm central control over these fiscal aggregates.

Financial control is exercised so as to achieve specific fiscal targets, and the nature of these targets is also important. Under the former cash accounting and budgeting regime, the key fiscal aggregates upon which Australian governments focused were the cash budget balance¹⁷ and its stock equivalent, net debt. Following the adoption of accrual accounting, the Commonwealth has adopted a new headline fiscal policy indicator—the so-called *fiscal balance*. Whereas previously the Government's primary fiscal aim was structurally balanced cash budget, the objective now is "fiscal balance, on average, over the course of the business cycle"¹⁸. Fiscal balance is defined as the budget operating balance minus net public investment, and is the flow counterpart of net financial liabilities¹⁹. Fiscal balance is regarded by the Commonwealth Treasury as "the accrual counterpart of the underlying cash balance", and as a superior measure of government saving²⁰.

Discretionary control by departments over own-source funding would necessarily reduce the Government's capacity to control these fiscal aggregates. When a department draws upon own-source funds to finance a cash outlay, the Government's cash budget balance deteriorates commensurately. So, *ceteris paribus*, does net debt. Unless the cash outlays concerned are used to extinguish a financial liability (e.g. to pay long service leave), fiscal balance and net financial liabilities also deteriorate.

Against this, it might be argued that to give departments unfettered control over the use of their "own" funds would hardly be to permit an unrestrained fiscal free-for-all. Departmental freedom in the use of accumulated profits, for example, could be viewed as something like permitting departments to carry over unexpended appropriation amounts from one year to the next. Moreover, the unconstrained use of accumulated depreciation funds would give departments only a degree of capital expenditure freedom—namely, the freedom to undertake sufficient capital expenditure to compensate for past asset depreciation and thus maintain their

operating capacity. Any expansion of the departmental capital stock beyond this would require an additional equity injection from government.

It is possible, therefore, to argue for the removal of central controls over the use of departmental own-source funds on the grounds that it is merely an extension of the wholesome idea of multi-year budgeting. Unfortunately, however, to argue along these lines would be to ignore two fundamental constraints. The first is that governments do, for a variety of good reasons, view their capacity to set and achieve *annual* fiscal targets as of fundamental importance. As long as this is the case, the scope for appropriations carryovers must remain severely limited. The second point is that the unconstrained use of accumulated depreciation funds only make sense to the extent that it is desirable that each department over time at least maintains its capital stock. If, however, government wishes to retain a capacity to change the functional and departmental allocation of the budget sector capital stock over time, it cannot afford to relinquish central control over departmental use of accumulated depreciation.

ACCRUAL BUDGETING VERSUS ACCRUAL OUTPUT BUDGETING

Under accrual output budgeting, neither the appropriations framework nor the central financial control mechanism more generally could be said to be simple and transparent. The sourcing of capital expenditure from both the equity injection appropriation and the payment for outputs appropriation (via "funded" depreciation) appears to be a source of considerable confusion even amongst public servants. The nature and role of non-appropriations funding sources is also widely misunderstood²¹.

It cannot be said that these complex appropriations and funding arrangements are a necessary consequence of the adoption of accrual accounting. Financial control and financial reporting are two separate processes with different objectives. For financial reporting purposes, depreciation certainly needs to be recognised together with other expenses, because only by doing so can the full cost of government service provision be determined. This does not, however, mean that it is necessary or appropriate to include depreciation together with other expenses when setting limits upon departmental resource usage. Depreciation is not a controllable expense, and unlike other expenses it does not require cash outlays in the present or future. Financial control would be achieved with greater simplicity, and no loss of efficacy, if Parliament appropriated an expenses budget which covered only expenses which involve current or future cash outlays on the part of the department, without any pretence of "funding" depreciation. This would amount to the use for budgeting purposes of what Professor Chan calls the "semi-strong modified accrual concept"²², with the use of full accrual accounting for financial reporting purposes.

Excluding depreciation from an expenses appropriation would be consistent with a return to the former capital expenditure appropriation arrangement, in which all sources of capital funding were brought within the umbrella of the relevant appropriation. Once again, the difference between financial reporting and financial control is crucial. As noted above, central control over capital expenditure aggregates is essential irrespective of whether accrual or cash accounting is employed for financial reporting purposes, and a comprehensive capital expenditure appropriation category would help make this control more transparent.

The inclusion of depreciation in the expenses appropriation under AOB (and its consequent exclusion from the equity injection appropriation) has, of course, nothing to do with the financial control function of budgeting. Rather, it derives from the commercialisation objective of AOB, and more specifically from the notion that the payment for outputs appropriation should represent the revenue earned by the department by delivering products to its customer. Ordinary businesses must strive to cover all their operating expenses, including depreciation, from the revenue they earn by selling their products. So if departments are to be made to operate like businesses, then they should be able to cover *all* their costs from their revenue—at least if they are operating efficiently and delivering the products which their customer has ordered.

AOB enthusiasts might therefore take the view that the increased complexity of AOB financial control arrangements, while unfortunate if considered in isolation, is an acceptable price to pay for the performance-enhancing effects which they see as arising from the thoroughgoing application of the market model to public budgeting. This might suggest that one needs to evaluate AOB as a performance budgeting system before passing any final judgement upon it from a financial control perspective. Such an evaluation is, regrettably, beyond the scope of the present paper, although evaluations of the New Zealand "contract budgeting" system have raised major conceptual and problems which are directly applicable to Australian AOB and which raise doubts about its practicability and efficacy²³.

However, even if one were to accept the credentials of AOB as a performance budgeting system, it is still possible to question the wisdom of the AOB appropriations and financial control framework. The most problematic features of AOB in this respect arise from the dual function of the payment for outputs appropriation in the AOB framework as both "revenue earned" and as a ceiling on departmental expenses.

First, a little context. If government departments are to be placed on a business footing and if, more specifically, departmental financial results are to be transformed into a key departmental performance measure, it is essential that there be a clear distinction between costs and revenue earned. In a (competitive) market context, the revenue earned by a business from sales to customers bears no necessary relationship to its total costs of production. Indeed, the whole point about market performance incentives lies in the difference between the revenue and costs. If your costs exceed your revenue—whether because your unit costs exceed the prevailing market price or because of poor delivery performance—you make a loss. If your revenue exceeds your costs, you make a profit. If market incentives are to be made to operate in the non-profit public sector, it is therefore essential that the payment for outputs reflect 'a fair market price separate from the cost of outputs'²⁴. Consistent with this, the stated aim in all Australian AOB jurisdictions is that, over time, the price paid by government for departmental outputs should be based upon the "efficient" costs of production (as determined by benchmarking, market testing and similar processes) rather than upon actual departmental costs²⁵.

The dual function of the payment for outputs appropriation as revenue earned and as a financial control variable is deeply problematic from this perspective. If the distinction between revenue and costs (expenses) were to be put into effect, it would

have to be possible for a department to make a loss (earn revenue which was less than its expenses) if either

- Its actual costs of production were known (ex ante) to exceed the "efficient" cost of production, and it was impracticable or undesirable to immediately contract out production of the outputs concerned,
- The department used all its appropriated funding but failed to deliver to government the full quantity (or quality) of output which it had "agreed" in the budget process that it would produce (so that unit costs exceeded price ex post).

If, however, the payment for outputs appropriation purports to represent both revenue and the expenses ceiling, departments are necessarily barred from incurring expenses in excess of "revenue". It is then impossible for a department to make a loss because of poor performance. Under these circumstances, the appropriation cannot function as a measure of revenue earned and the departmental profit/loss figure cannot even in principle constitute a meaningful measure of departmental performance in delivering services to the community.

If one accepts that the parliamentary output expenses appropriation cannot simultaneously serve the revenue payable and expenses control function, an obvious solution is to confine the role of the expenses appropriation to that of financial control. Revenue payable would then be determined separately, generally at a level not in excess of, but potentially below, budgeted or actual expenses. Under these circumstances, it would be quite possible to combine AOB with a system in which the expenses appropriation did not purport to include depreciation, and the capital appropriation included all sources of capital funding.

In the state of Victoria, the distinction between revenue earned and costs incurred has in fact been partly recognised through a system of 'payment for results'. Nothing like it exists elsewhere in Australia (or in New Zealand for that matter). In Victoria, the parliamentary appropriations represents an authorisation to incur expenses, but is not regarded as revenue per se. Departments use these appropriated funds to produce outputs, but are then required to "invoice" Treasury on a quarterly basis for "payment" in respect to the outputs delivered. Only the output payments authorised by Treasury can be recognised as revenue in the department's annual accounts. If the department were to deliver less output than it was committed to produce, it might in principle earn revenue which was less than its expenses²⁶. The result, theoretically, would be an operating loss which was indicative of departmental under-performance.

It is not possible to analyse the Victorian system in this paper, other than to note that theory and practice are two distinct things. There has to date been no instance of Victorian departments being "paid" revenue less than its expenses as a consequence of adjudged under-performance. Political considerations are part of the explanation: individual ministers have successfully fought off certain attempts by Treasury to inflict such paper losses upon departments which it perceived as under-performing. Beyond this, as brave as it is, the Victorian system does not provide a solution to a broader set of problems which impinge upon the practicability and efficacy of the whole AOB scheme. Once again, however, these broader issues lie beyond the scope of the present paper.

It was noted earlier that, although the payment for outputs appropriation generally serves as an expenses ceiling, there have in fact been examples of departments which have been appropriations which are less than their anticipated expenses, implying a *budgeted* operating deficit. Perhaps, it might be thought, this reflects the implementation of the principle of payment based on efficient cost rather than actual cost? A review of a large number of departmental budgets suggests, however, that this is not the case. Some budgeted operating deficits arise from purely "technical" accounting considerations²⁷. Where this is not the case, budgeted operating deficits have been a means by which certain State Treasuries have forced departments to disgorge what they regard as excessive levels of "surplus" funds in their bank accounts. What has happened has been that the payment for outputs is deliberately set by Treasury at a level below departmental expenses, and the department is then required to fund the difference from its own resource. Such an approach certainly has nothing to do with the competitive market model. Indeed, it illustrates further the tension between financial control and performance budgeting objectives, because it is quite conceivable that a profitable department may find itself "rewarded" for its performance by being forced to run an operating deficit.

CONCLUSION

The system of central financial control has changed significantly in Australia with the adoption of accrual output budgeting. The nature of parliamentary appropriations has changed considerably, and own-source departmental funds which do not require parliamentary authorisation now play a quite important role. The reduction in central financial control via the appropriations process has not, however, led to an overall lessening of the degree of central financial control over departments. Rather, the reduced role for parliament has led to a commensurate increase in reliance upon administrative controls.

The new appropriations and funding arrangements are complex and are confusing even to many public officials. They reduce fiscal transparency and might even be seen as reducing democratic accountability.

These arrangements derive from the attempt to transform budgeting into a system which simulates market purchaser/provider and owner/enterprise relationships, so as to promote better output delivery performance from government departments. A key question therefore is whether the performance gains from accrual output budgeting are likely over time to outweigh the losses of transparency and accountability. However, even within an AOB framework, there is a case to be made for major simplification of these financial control mechanisms.

AOB has generated significant tension between government departments and treasuries. Departments are expected to operate like businesses, and to manage their funds accordingly. At the same time, however, they are supervised and controlled when they seek to make use of their "own" funds. The problem here is that there are fundamental differences between government and the private sector, which tend to be overlooked or downplayed by exponents of the "new public management". More specifically, governments can only successfully achieve control crucial fiscal aggregates such as the budget balance and net debt or net liabilities if they exert

strong control over departmental expenses/outlays irrespective of whether they are financed from appropriations or "own-source" funds.

NOTES

- ¹ One of the remaining two Governments (the Northern Territory) has subsequently decided to adopt AOB.
- ² For general outlines of the system see, for example, Department of Finance and Administration, *Commonwealth Accrual Budgeting Guidelines* (Canberra: DOFA, 1999); Victorian Department of Treasury and Finance, *Victorian Accrual Accounting Manual* (Melbourne: DTF, December 1999); Queensland Treasury, *Managing for Outcomes in Queensland* (Brisbane: QT, 1997).
- ³ Marc Robinson, "Contract Budgeting," *Public Administration*, 78 (1) (2000), 75-90.
- ⁴ The significant exception to this was the *net* outlays appropriations arrangements, under which departments were permitted to retain certain of the revenues they might earn from the sale of services to the public. Their current outlays appropriation then represented an amount net of these anticipated revenues.
- ⁵ The term "Treasury" in this paper refers to the State Treasuries and, at the Commonwealth level, the Department of Finance and Administration (the Commonwealth Treasury is concerned with macroeconomic policy and budget aggregates rather than the enforcement of budget controls).
- ⁶ The Commonwealth uses the term "equity injection *and* loans" for this appropriations category. There is thus the possibility of formal loans being made to departments by the government. In this model, such an appropriation is like an injection of external funds from the capital markets more generally.
- ⁷ An example of this would be monies provided by a Department of Justice to the courts for the payment of judicial salaries: given the principle of independence of the judiciary, there can be no question of holding the Department accountable for the quantity and quality of the services produced by the judiciary. In practice, the distinction between "administered" and "controlled" expenses or expenditures can be a matter of considerable ambiguity.
- ⁸ An exception to this is superannuation obligations to public servants, the liability for which is assumed centrally by Government, with departments making notional annual employer contributions in respect of their employees.
- ⁹ A couple of the States have also adopted capital charging regimes, with the capital charge being treated as an expense to be covered by the payment for outputs appropriation. By contrast, the Commonwealth treats the capital charge as a below-the-line payment akin to a dividend. Capital charging is explained in Marc Robinson, "Capital Charges and Capital Expenditure Decisions in Core Government," *Journal of Public Budgeting, Accounting and Financial Management* 10 (3) (Fall, 1998), 354-74.
- ¹⁰ This requires qualification: the system of "net" appropriations alluded to in a previous footnote, under which departments are able to keep certain revenue from the sale of goods and services to the public, continues to operate under AOB.
- ¹¹ I.e. the anticipated expenses reported in the annual budget papers.
- ¹² Queensland is an exception to this.
- ¹³ Department of Finance and Administration, *Accrual Resourcing Framework* (http://www.dofa.gov.au/abp/reading_room/publications/Appropriations.html, 7 July 1999), 3.
- ¹⁴ The presumption of operating capital maintenance by departments is closely linked to the (questionable) doctrine of replacement cost asset valuation which, in its more "deprival value" variant, dominates the Australian public sector.
- ¹⁵ Department of Finance and Administration, *Accrual Appropriation Framework* (http://www.dofa.gov.au/abp/reading_room/publications/Appropriations.html, 7 July 1999), 4.
- ¹⁶ Queensland and Victoria.
- ¹⁷ Or variants thereof, such as the "underlying" cash budget balance, which excluded privatisation receipts and "net advances".
- ¹⁸ The Treasury, *Budget Paper No 1, 1999-2000* (Canberra: Commonwealth Treasury, 1999), 1.14
- ¹⁹ Marc Robinson, "Accrual Financial Reporting and Australian Fiscal Policy", *Discussion Paper no. #*, Brisbane: School of Economics and Finance, Queensland University of Technology, 2000).
- ²⁰ The Treasury, *Fiscal Policy under Accrual Accounting: Information Paper* (Canberra: Commonwealth Treasury, 1999), 2.
- ²¹ The comments in this paragraph are based both upon formal interviews with senior public servants, and upon informal discussions with a large number of middle-level and senior officials. To the

-
- extent that no formal structured survey has been undertaken at this stage, however, it must be acknowledged that they are impressionistic.
- ²² James L Chan, "The Bases of Accounting for Budgeting and Financial Reporting", in *Handbook of Government Budgeting* ed. Roy T Meyers (San Francisco: Joss-Bass Publishers, 1998), 364.
- ²³ Robinson, "Contract Budgeting."; Allan Schick, *The Spirit of Reform: Managing the New Zealand State Sector in A Time of Change*, (Wellington: State Services Commission, 1996).
- ²⁴ The words are those of one of the New Zealand originators of this form of budgeting: see Ball, I. 1992, "The New Approach: Financial Management Reform", *Accountants' Journal* (June, 1992), 21.
- ²⁵ See, for example, Department of Finance and Administration, *Commonwealth Accrual Budgeting Guidelines* (Canberra: DOFA, 1999), 27. Victorian Department of Treasury and Finance, *Output Costing Guide* (Melbourne: DTF, 1997), 9, 11; Queensland Treasury, *Managing for Outcomes: Policy Guidelines* (Brisbane: QT, 1998), 23.
- ²⁶ Victorian Department of Treasury and Finance, *Accrual Accounting Manual*, (Melbourne: DTF, 1998), 302-3.
- ²⁷ Particularly related to the impact upon operating results of balance sheets revaluations, under Australian Accounting Standard 31. Robinson, "Accrual Financial Reporting and Australian Fiscal Policy" argues that it is inappropriate that such revaluations should be permitted to impact upon the operating result.